

**UNREGULATED UTILITY
POWER COST EQUALIZATION MEMORANDUM**

File No.: PC89-0422

Date: May 19, 2022
Filing Due Date: April 30, 2022
Review Deadline: May 27, 2022¹
Date Filed: April 12, 2022

Name of Utility: Inside Passage Electric Cooperative, Inc. Cert. No. 240

☒ Annual Update
☐ Fuel Cost Update
☐ Rate Change
☐ Other _____

☐ COPA Review
☐ Non-Fuel Cost Change
☐ kWh Sales Change

STAFF RECOMMENDATIONS: Approval of updated Permanent PCE amount (see attached memo)

PCE AMOUNT SUMMARY	Previously Approved	Staff Recommended
PCE AMOUNT (In Cents/kWh)	<u>Date Approved:</u> April 8, 2022	
All	38.79¢	39.79¢

Signed: Brenda Cox Brenda Cox Utility Financial Analyst

Commission decision re. this recommendation:

	Date (if different from 5/19/22)	I Concur	I Do Not Concur	I Will Write A Dissenting Statement *
Pickett	_____	<u>RMP</u>	_____	_____
Kurber	_____	<u>KML</u>	_____	_____
Scott	_____	<u>AGS</u> AGS	_____	_____
Sullivan	_____	<u>DS</u>	_____	_____
Wilson	_____	<u>Jaw</u>	_____	_____

¹ Typically, there is no deadline for review of Power Cost Equalization (PCE) annual reports. However, a utility may request the review of an annual report (3 AAC 52.640(c)(2)) and the request triggers a 45-day review period (3 AAC 52.650(a)).

Memorandum

TO: Robert M. Pickett, Chairman DATE: May 19, 2022
Keith Kurber II
Antony G. Scott
Daniel A. Sullivan
Janis Wilson

FROM: Brenda Cox
Utility Financial Analyst

RE: Inside Passage Electric Cooperative, Inc.
PC89-0422

Recommendations

1. Updated Power Cost Equalization amounts should be effective for billings rendered on or after May 20, 2022.
2. Approval should be: ☒ Permanent ☐ Interim
3. Standard reminder language for notice specifications, efficiency, and rate changes should be included in the By Direction Letter to the utility.

Filing

On April 12, 2022, Inside Passage Electric Cooperative, Inc. (IPEC) filed its Power Cost Equalization (PCE) annual report (annual report) for the test year ending December 31, 2021. IPEC filed two supplements on April 18, 2022.² Staff's contact for this filing was Mr. Paul Jones, Attorney for IPEC.³

IPEC continued to file some of the same Schedules it filed when it was regulated and filed its Simplified Rate Filing (SRF).⁴

- Schedule 1 – Calculation of Proposed Rates
- Schedule 2 – PCE calculation based on Updated Rates and Non-Fuel Costs
- Schedule 3 – RCA Form 201
- Schedule 4 – Statement of Operations
- Schedule 5 – Calculation of PCE Non-Fuel Costs
- Schedule 5.1 – Waste Heat and Pole Attachment Revenue
- Schedule 6 – PCE Expense Adjustments
- Schedule 6.1 – Schedule of Long-Term Debt & Interest Adjustment

² See 2021 PCE Supplements for Annual Report (TR2201680 and TR2201681).

³ Paul Jones is with Kempel, Huffman and Ellis.

⁴ See U-18-013(4), *Order Informing utility of Continuing Filing Obligations, Re-designating Commission and Closing Docket*, dated September 18, 2018.

- Schedule 6.2 – Administrative and General Expense Adjustment
- Schedule 6.3 – Wage and Benefits Annualization Adjustment
- Schedule 6.3.1 – Employee Insurance Detail

IPEC also filed Exhibit 2 its Rural Utilities Service (RUS) forms for the period ending December 2021, Exhibit 3 its Financial Statements and Independent Auditors Report for December 31, 2020 and 2021, Exhibit 4 its Depreciation Schedule, Exhibit 5 its Electric Utility PCE Data Form, and Exhibit 6 its General Ledger.

Summary

After Staff's proposed adjustments, IPEC's total costs per kiloWatt-hour are 61.91¢/kWh. IPEC's reported fuel efficiency is 14.47 kWh/gallon and reported line loss is 7.57%. Per Staff's request IPEC advised it did not receive any CARES loans or COVID money in 2021.⁵ Staff's detailed analysis of this filing follows:

Analysis

Staff used the following in its analysis: IPEC's Exhibit 1, which included the Schedules listed above, Exhibit 2, Exhibit 4, Exhibit 5, and Exhibit 6. Total reported non-fuel costs were \$5,661,244.⁶

Columns 1 and 2 of Schedule 3 shows the two most recent twelve month-periods (the test years ended December 31, 2020, and 2021).⁷ IPEC also filed the RUS Form 7, the schedule necessary to reconcile the twelve-month reporting period shown on Schedule 3.⁸ Column 3 shows the variance between the two twelve-month periods; Column 4 shows the percentage change; Column 5 shows IPEC's requested normalizing adjustments; and Column 5 shows IPEC's normalized operating expenses.

Pro Forma Adjustments

IPEC's proposed normalizing adjustments are shown at Schedule 3, Column 5. Summary and narrative explanations are found at Schedules 6 through 6.3. IPEC

⁵ See Supplement filed April 18, 2022 (TR2201680).

⁶ See Schedule 3, sum of lines 11 through 18, Adjusted Current 12-Months.

⁷ Schedule 3 is found in Exhibit 1.

⁸ See Exhibit 2, RUS Form 7.

proposes seven test period adjustments which are summarized as follows:⁹

Power Production Expense (Line 2): Increase of \$25,315 to normalize a 2.5% across-the-board wage increase effective January 2022 and related Medicare taxes, Social Security taxes, retirement contribution, and insurance expense (see Schedule 6.3).

Distribution-Operations Expense (Line 5): Increase of \$5,620 to normalize a 2.5% across-the-board wage increase effective January 2022 and related Medicare taxes, Social Security taxes, retirement contribution, and insurance expense (see Schedule 6.3).

Distribution-Maintenance Expense (Line 6): Increase of \$1,517 to normalize a 2.5% across-the-board wage increase effective January 2022 and related Medicare taxes, Social Security taxes, retirement contribution, and insurance expense (see Schedule 6.3).

Consumer Accounts Expense (Line 7): Increase of \$5,525 to normalize a 2.5% across-the-board wage increase effective January 2022 and related Medicare taxes, Social Security taxes, retirement contribution, and insurance expense (see Schedule 6.3).

Customer Service Expense (Line 8): Increase of \$898 to normalize a 2.5% across-the-board wage increase effective January 2022 and related Medicare taxes, Social Security taxes, retirement contribution, and insurance expense (see Schedule 6.3).

Admin. & General Expense (Line 10): Decrease of \$19,977, which consists of the following: removal of lobbying expenses (\$26,052); removal of donations, gifts, and community involvement expenses (\$2,113); removal of Alaska Air miles program expense (\$15,737); and removal of board and management expenses (\$626). It also includes an increase of \$24,551 to

⁹ AS 42.45.110(a) specifies the costs used to calculate the amount of PCE for all electric utilities eligible under AS 42.45.100- 42.45.150 include all allowable costs, except return on equity, used by the Regulatory Commission of Alaska to determine the revenue requirement for electric utilities subject to rate regulation under AS 42.005.

normalize a 2.5% across-the-board wage increase effective January 2022 and related Medicare taxes, Social Security taxes, retirement contribution, and health insurance expense (see Schedule 6.2, and Schedule 6.3).

Interest Long Term Debt (Line 15): Increase of \$47,345, to adjust for the long-term debt and interest expense based on the test year ending December 31, 2021 (Schedule 6.1).

Staff Recommended Adjustments

After reviewing IPEC's pro forma adjustments, found at Schedule 6.2, Staff noted the adjustment to Admin & General Expense, included a \$900 decrease related to donations. This left a balance of \$900 under Other deductions on Schedule 3.¹⁰ Other deductions is the account donations are reported in. Staff recommends increasing Admin & General Accounts by \$900 and decreasing Other deductions by \$900. This adjustment has no effect on the total of the nonfuel costs.

Therefore, Staff recommends **Adjustment 1 (Appendix 2)** to increase Admin & General Expenses by \$900 and **Adjustment 2 (Appendix 2)** to decrease Other Expenses by \$900.

PCE Calculation

IPEC filed Schedule 5, which shows the adjustments IPEC made to the non-fuel costs to determine non-fuel costs eligible in the calculation of the PCE amount. IPEC reduced the Total Adjusted Cost of Electric Service of \$5,661,244 by the Fuel Expense in the amount of \$1,236,274 and Cost of Purchased Power in the amount of \$307,223.¹¹ IPEC also reduced for costs equal to Waste Heat Revenue in the amount of \$44,833, and costs equal to Pole Attachment Revenue in the amount of \$12,936. After these adjustments total non-fuel costs used in the PCE calculation are \$4,059,979.¹²

¹⁰ See Schedule 3, line 18.

¹¹ Staff noted these costs were included in amounts reported on Schedule 3 and are recovered in IPECs COPA.

¹² Staff notes these are the same adjustments IPEC used in its SRF filings in the past (TA212-240) and its last PCE annual update filing (PC89-0421D).

Rates

IPEC filed Schedule 1 showing its rates, Staff notes IPEC's rates are not changing and are as follows:

Rate Class	Amount
Residential - Energy	\$0.4524
Small Commercial	\$0.4855
Large Power - Energy	\$0.3978
Large Power - Demand	\$15.26
Large Power Interruptible	
Energy-First 60,000 kWh	\$0.2008
Next 240,000 kWh	\$0.1699
Over 300,000 kWh	\$0.1594
Standby	\$48.70

Fuel Costs

IPEC filed its most recent PCE fuel report on February 28, 2022, for the 2nd quarter of 2022. IPEC uses the COPA methodology that it used when it was regulated. A weighted average price of \$3.1775/gallon and a COPA of \$0.2105/kWh were calculated in PC89-0421F, ¹³ which is included in **Appendix 2**.

¹³ Approved in Letter Order L2200094, dated April 8, 2022.

Inside Passage Electric Cooperative, Inc.

POWER COST EQUALIZATION CALCULATION
FOR TEST PERIOD ENDING December 31, 2021
Annual Update

	PC89-0421F	PC89-0422
	Prior Commission Approval	Utility Request Staff Recommended
A. Total kWh Generated	9,454,499	9,312,460
B. Total kWh Sold (Appendix 2)	9,531,667	9,935,239
C. Total Non-Fuel Costs (Appendix 2)	3,794,577	4,059,978
D. Non-Fuel Cost/kWh (C/B)	\$0.3981	\$0.4086
E. Total Fuel and Purchased Power Costs (Appendix 2)	0.2105	0.2105
F. Eligible Costs/kWh (D+E)	\$0.6086	\$0.6191
G. Eligible Cost/kWh (F) Less 20.03 cents/kWh	\$0.4083	\$0.4188
H. Lesser of (H) or 79.97 cents/kWh	\$0.4083	\$0.4188
I. Average Class Rates (Appendix 3)		
Residential	\$0.4846	\$0.4846
Small Community Facilities - All kWh	\$0.5297	\$0.5297
Large Community Facilities - All kWh	\$0.5180	\$0.5180
J. Lesser of: (H) x 95% or (I)		
Residential	\$0.3879	\$0.3979
Small Community Facilities - All kWh	\$0.3879	\$0.3979
Large Community Facilities - All kWh	\$0.3879	\$0.3979
K. Funding Level in Effect	100%	100%
Residential	\$0.3879	\$0.3979
Small Community Facilities - All kWh	\$0.3879	\$0.3979
Large Community Facilities - All kWh	\$0.3879	\$0.3979

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Appendix 1

Inside Passage Electric Cooperative, Inc.

SCHEDULE OF ELIGIBLE POWER COSTS, SALES, AND EFFICIENCY

FOR TEST PERIOD ENDING December 31, 2021

Annual Update

		PC89-0421F		PC89-0422	
		Prior Commission Approval	Per Utility	Staff Adjustments	Staff Recommended
Non-Fuel Costs:					
A.	Operating Expenses (Acct 500-598)	2,845,172	3,467,819	Adj. #1 0	3,467,819
B.	General & Administrative (Acct. 901-935)	1,372,846	1,315,029		1,315,029
C.	Depreciation	536,989	580,467	0	580,467
D.	Interest Expense	299,236	291,698	Adj. #2 0	291,698
E.	Other Expense: Tax/Donations	4,612	6,231		6,231
F.	Other (Describe)				
	Fuel Expense	(925,174)	(1,236,274)	0	(1,236,274)
	Cost of Purchased Power	(293,278)	(307,223)	0	(307,223)
	Waste Heat Revenue	(32,890)	(44,833)	0	(44,833)
	Pole Attachment Revenue	(12,936)	(12,936)	0	(12,936)
G.	Total Non-Fuel Costs	\$3,794,577	\$4,059,978	\$0	\$4,059,978
H.	Total kWh Sold in Test Year January 2021 through December 2021	9,531,667	9,935,239		9,935,239
I.	Non-Fuel Cost/kWh (G/H)	\$0.3981	\$0.4086		\$0.4086
COPA Fuel Costs:					
J.	Gallons Consumed (estimated) (April- June 2022)	\$159,213	159,213		159,213
K.	Price of Fuel (per gal) (April-June 2022)	\$3.1775	\$3.1775		\$3.1775
L.	Purchased Power (April-June 2022)	\$57,018	\$57,018		\$57,018
M.	Balancing Account estimated to 2-28-22	(\$64,743)	(\$64,743)		(\$64,743)
N.	Total Cost of Fuel (J*K)+L+M	498,174	498,174		498,174
O.	Estimated kWh Sales in April-June 2022	2,367,164	2,367,164		2,367,164
P.	Fuel Costs/kWh - COPA (N/O)	\$0.2105	\$0.2105		\$0.2105
Q.	kWh Sales	9,531,667	9,935,239		9,935,239
R.	kWh Generated with Diesel	6,742,606	6,788,498		6,788,498
	kWh Generated with Hydro	2,711,893	2,523,962		2,523,962
	Total kWh Generated	9,454,499	9,312,460		9,312,460
S.	Purchased Power	1,263,120	1,772,640		1,772,640
T.	Fuel Consumption	512,657	469,045		469,045
U.	kWh Station Service	304,327	311,157		311,157
		<u>Standard</u>			
V.	Efficiency ≥ 12.5	13.15	14.47		14.47
		(kWhs generated per gallons consumed)			
W.	Line Loss ≤ 12%	8.23%	7.57%		7.57%
		(kWh generated or purchased -(kWh sales + Station Service))/kWh generated or purchased			

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Appendix 2

Inside Passage Electric Cooperative, Inc.

CALCULATION OF AVERAGE CLASS RATE PER kWh

Surcharge: 0.2105

Rate Schedule: **Residential**

Customer Charge (CC): 11

(1) Block (by kWh)	(2) Rate (\$/kWh)	(3) Surcharge (\$/kWh)	(4) Total (\$/kWh) (2+3)	(5) Total \$ (1x4)+CC	(6) Avg. (\$/kWh) (5)/(1)	(7) Avg. Rate (\$/kWh) - \$ 0.2003
0 to 500	0.4524	0.2105	0.6629	342.4500	0.6849	0.4846
to						
to						
to						
Max 500			Total			

Rate Schedule:

(1) Block (by kWh)	(2) Rate (\$/kWh)	(3) Surcharge (\$/kWh)	(4) Total (\$/kWh) (2+3)	(5) Total \$ (1x4)	(6) Avg. (\$/kWh) (5)/(1)	(7) Avg. Rate (\$/kWh) - \$ 0.2003
0 to 500						
to						
to						
to						
Max 500			Total			

Rate Schedule:

(1) Block (by kWh)	(2) Rate (\$/kWh)	(3) Surcharge (\$/kWh)	(4) Total (\$/kWh) (2+3)	(5) Total \$ (1x4)	(6) Avg. (\$/kWh) (5)/(1)	(7) Avg. Rate (\$/kWh) - \$ 0.2003
0 to 500						
to						
to						
to						
Max 500			Total			

Inside Passage Electric Cooperative, Inc.

CALCULATION OF COMMUNITY FACILITY AVERAGE RATE PER kWh

Rate Schedule: **Small Comm. Fac.**

Customer Charge
(CC):

17

(1) Block	(2) Rate/ kWh	(3) Surcharge (\$/kWh)	(4) Total (\$/kWh) (2+3)+(CC/500)	(6) Average Rate(\$/kWh)- \$ 0.2003
0 to ∞	0.4855	0.2105	0.7300	0.5297

Rate Schedule: **Large Comm. Fac.**

Customer Charge:

55

(1) Block	(2) Rate/ kWh	(3) Surcharge (\$/kWh)	(4) Total (\$/kWh) (2+3)+(CC/500)	(6) Average Rate(\$/kWh)- \$ 0.2003
0 to ∞	0.3978	0.2105	0.7183	0.5180

Rate Schedule:

(1) Block	(2) Rate/ kWh	(3) Surcharge (\$/kWh)	(4) Total (\$/kWh) (2+3)	(6) Average Rate(\$/kWh)- \$ 0.2003
0 to				
to				
to				

Signature: 

Email: bob.pickett@alaska.gov

Signature: Keith Kurber II
Keith Kurber II (May 19, 2022 08:03 AKDT)

Email: keith.kurber@alaska.gov

Signature: 

Email: antony.scott@alaska.gov

Signature: Daniel Sullivan
Daniel Sullivan (May 19, 2022 10:54 AKDT)

Email: daniel.sullivan@alaska.gov

Signature: Janis W. Wilson
Janis W. Wilson (May 19, 2022 11:51 AKDT)

Email: janis.wilson@alaska.gov

PCE Annual Report

Utility Name:

INSIDE PASSAGE ELECTRIC COOPERATIVE, INC.

Period Ending:

12/31/21

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LINE	ACCOUNT NUMBER(S)	ACCOUNT TITLE	ACTUAL CURRENT 12-MONTH	Normalizing Adjustments	Per Utility	Staff Adjustments	Staff Recommended
			12/31/21 (2)	(5)	(2+5)		
2	500 - 554	Power Production	2,806,536	25,315	2,831,851		2,831,851
3	555 - 557	Purchased Power	307,223		307,223		307,223
4	560 - 573	Transmission	0		0		0
5	580 - 589	Distrib-Operations	198,793	5,620	204,413		204,413
6	590 - 598	-Maintenance	122,815	1,517	124,332		124,332
7	901 - 905	Consumer Accts.	200,773	5,525	206,298	Ad. #1	206,298
8	907 - 910	Customer Service	21,490	898	22,388		22,388
9	911 - 916	Sales	29,202		29,202	Adj. #1	29,202
10	920 - 935	Admin & General	1,077,118	(19,977)	1,057,141	900	1,058,041
11	Total O&M	(2 THROUGH 10)	4,763,950	18,898	4,782,848	900	4,783,748
12	403 - 407	Depreciation & Amortization	580,467		580,467		580,467
13	408.1	Property Tax	4,968		4,968		4,968
14	408.2 - 408.4	Other Tax	363		363		363
15	427	Interest L-T Debt	244,353	47,345	291,698		291,698
16	427.3	IDC	0		0		0
17	430	Other Interest	0		0	Adj. #2	0
18	426	Other Deductions-donations	900	0	900	(900)	0
19			5,595,001	66,243	5,661,244		5,661,244
20	Less Fuel Expense (Schedule 5)				(1,236,274)		(1,236,274)
21	Less Cost of Purchased Power (Schedule 5)				(307,223)		(293,278)
22	Less Costs Equal to Waste Heat Revenue (Schedule 5)				(44,833)		(32,890)
23	Less Costs Equal to Pole Attachment Revenue (Schedule 5)				(12,936)		(12,936)
24	Total Non-Fuel Costs				4,059,978	0	4,085,866